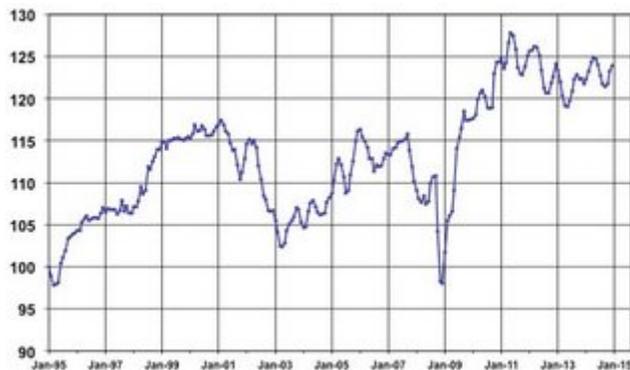


Wholesale Prices Rise Again in December



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) increased for the third consecutive month in December. This pushed the December Manheim Used Vehicle Value Index to a reading of 123.9, which represented an increase of 1.8% from a year ago.

Statistically speaking, the last four years have shown the least volatility in wholesale vehicle pricing since the Manheim Index's inception in 1995. A lot of macroeconomic and industry factors contributed to that stability, but also give credit to better and more efficient remarketing practices that enabled commercial consignors to anticipate, respond to, and thus minimize impending swings in wholesale pricing.



New vehicle sales: a good close to a good year. New cars and light-duty trucks sold at a seasonally adjusted annual rate of 16.9 million in December. That pushed the full-year tally to 16.5 million, an increase of 6% from 2013. Sales were up nearly 60% from 2009's trough.

Importantly, from a used vehicle value perspective, new vehicle sales in 2014 were achieved without overly aggressive consumer incentives or a heavy reliance on rental and fleet sales. Sure, readily available financing at attractive terms plays a major role in supporting sales; but those offers were a reflection of underlying financial market conditions. As the rate of growth in new vehicle sales slows during the coming year and as financial markets begin a move back to normalcy, manufacturers will find it harder to maintain pricing discipline.

Used vehicles: volumes off, profits up. Although total used unit sales by dealers were off 4.1% in December and 1.4% for the full year, most operators will report record profits for the year. That's primarily the result of increased operating efficiencies. There is also the benefit of

the slightly smaller pie's being divided into fewer pieces as result of earlier network consolidations.

CPO sales were estimated to have exceeded 2.3 million units in 2014, an increase of 10% from 2013's record level. It is widely expected that CPO sales will reach a fifth consecutive record in 2015 as higher off-lease volumes increase both the ability and the need to increase these programs that enhance manufacturer and dealer profits by driving customer satisfaction and loyalty.

Pricing for rental risk units remains strong. Average prices for rental risk units sold at auction in December were up on both a month-over-month and year-over-year basis. After adjusting for broad changes in mix and mileage, prices for rental risk units have moved in a fairly narrow range over the past four years. Achieving that stability last year was no small feat, given the disruptive forces of harsh weather early in the year and massive manufacturer recalls throughout the year.

The number of rental risk units sold at auction in December 2014 was considerably higher than the low level of the previous year. Average mileage soared to a new high, with December topping the 47,000-mile mark. Many of the exceptionally high-mileage units sold in December were concentrated in the minivan and sports car segments. Both categories handled the higher mileage with little impact on pricing.

Market segment and price tier trends. Continuing the pattern exhibited for much of the year, vehicles in the \$13,000 to \$15,000 price range showed the greatest pricing strength in December, while vehicles in the \$8,000 to \$10,000 range were the weakest. As usual, vehicles under \$7,000 showed steady demand and pricing. Possible hiccups in this year's flow of tax refunds and greater use of down payment deferral programs late last year may dampen this year's tax season bounce in pricing for lower-end units.

Midsized cars were the pleasant surprise in residual retention in December. One would have thought dealers would limit auction bids to maintain pricing flexibility against a competitive new vehicle market. But no such reticence was observed, and dealers appear to be profitably marketing simultaneously in both the new and used vehicle markets.

The average auction price of dealer-consigned units continued its three-month upswing in December. Average mileage on these units has declined noticeably from its September high, but is still above year-ago levels.